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# **East Europe Report**

**ECONOMIC AND INDUSTRIAL AFFAIRS**

**No. 2300**

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# EAST EUROPE REPORT

## ECONOMIC AND INDUSTRIAL AFFAIRS

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## INTERNATIONAL AFFAIRS

### GDR PARTICIPATES IN INTERNATIONAL LITHOSPHERE RESEARCH PROJECT

East Berlin NEUES DEUTSCHLAND in German 17-18 Jul 82 p 12

[Article by Prof Dr. Heinz Kautzleben, director, Central Institute for Geophysics, GDR Academy of Sciences, Potsdam; and Prof Dr Karl-Bernhard Jubitz: "A Geological Seam Runs Across Europe—Scientists from the GDR Are Participating in the Lithosphere Project—New Findings on the Margins of the Plates of the Earth's Crust"]

[Text] Straight down the length of Europe—from the southern tip of Norway to the Dobruja in Romania in a northwest to southeast direction—runs one of the most important geological structures of our continent, the 2000-kilometer long and on the average 50 kilometer wide Teisseyre-Tornquist line—named after its discoverers, the Polish geologist H Teisseyre and his Swedish colleague A Tornquist. It marks the border between the geologically old East European plate—which except for its southeastern part takes in most of European Russia as well as Finland and Sweden—and the more recent West European plate as well as the very young folded mountains of Southern and Southeastern Europe.

#### When the Continent Was Still Adding Sections

With respect to the buildup and the tectonic or we might say structural development of the European continent, however, the Teisseyre-Tornquist line represents less of a border than a seam. In the course of the earth's history, younger sections of the continent were built onto the older sections which have existed as a stable crust for at least one billion years. The addition of the younger sections took place through the formation of mountains on the edge of the plate. This first happened, as far as we know, some 700 million years ago. Proceeding from north to south, others were added 500 million, 320 million and, in the last instance, 50 million years ago.

The procedures on the fringes of the East European table along with the effects they had on the Western parts of the continent are among the fundamental problems of European geology. Its thorough investigation—as far as the territory of the GDR is concerned—was the focus of a national program conducted by geologists and geophysicists of the GDR during the seventies. This was their contribution to the international geodynamics project under the sponsorship of the International Council of Scientific Unions.



Based on their findings, similar geological-geophysical research projects will make up the GDR's contribution to the international lithosphere project in the eighties.

Since 1975, the abovementioned processes on the fringes of the East European plate are being investigated at the behest of the Central Institute for Earth Physics of the GDR Academy of Sciences by scientists from 10 European countries under the direction of the representative of the institute. The research programs are part of Project No 86 (the Southwest Edge of the East European Plate) of the UNESCO international geological correlation program. More than 300 scientific papers have already been published on the findings of the project which still has until 1985 to run.

#### The Mantle Lies at a Depth of 50 Kilometers

Extensive geophysical research has shown that there are distinct differences between the East European plate and its southwestern foreland not only in the uppermost layers of the earth's crust which can be investigated with the help of geological probes and borings in particular. Seismic tests have shown that the borderline between the earth's crust and the earth's mantle generally drops from less than 30 kilometers to more than 50 kilometers as one proceeds from the West European to the East European plate. In the transition zone of the Teisseyre-Tornquist line, there is a trench where the crust-and-mantle borderline runs at an even greater depth.

Similar differences were also found to exist in the course of the seismic border areas in the upper earth mantle up to a depth of 700 kilometers. Examination of the electrical properties of the lower subsoil showed that there is a stratum in Central and Western Europe at a depth of between 100 and 300 kilometers where materials are quite fluid. This stratum does not seem to exist underneath the East European plate.

#### Remains Still Visible in Harz Mountains Today

These findings tend to agree with geothermic investigations which showed for example that temperatures in Central Europe at a depth of 30 kilometers stand at 700 K but only at 300 K underneath the East European plate. All this shows that the East European plate is deeply and firmly anchored in the earth's mantle but that the West European plate and the areas with the young folded mountains represent plates of the firm earth crust which can be moved with relative ease along the earth surface. This becomes clear when one goes by modern tectonic theory and assumes that the old North American continent moved until it collided with the old core of Europe, which was the East European plate. At that juncture, some 500 million years ago, a unified northern continent came into existence in which the Caledonian Mountains, still visible on the earth's surface in Norway and Scotland at the northwestern edge of Europe, were connected to the Appalachians in North America.

The collision of this northern continent with the African part of the southern continent of Gondwana later led to the formation of another mountain chain some 320 million years ago, the so-called Variscan Mountains which are of extraordinary importance for the tectonic structure of all of Central and Western Europe—remains of which are still visible today in the Harz Mountains, in the Thuringian Forest and the Erz Mountains. The unified northern continent broke up about 250 million years ago. The North American part drifted westward and so the North Atlantic came into existence.

As part of Project No 86, very thoroughgoing investigations are being conducted into the processes taking place in the Central European depression which runs from England to the Carpathians in Poland. By analyzing the countless observations, a clear picture of the structure, formation and development of the depression could be obtained. The base of the sedimentary basin thus formed is located today at a depth of 8 to 10 kilometers.

#### Toward a Well-Grounded Tectonic Schema

Investigation of the fringes of the East European plate and the development of the Central European depression have contributed a great deal to the understanding of European geology with the aid of international collaboration. These investigations provided all participating countries with better opportunities for integrating the tectonic development of their own territory into a well-grounded overall schema and also offered further incentives for independent national efforts based on economic considerations.



#### Key:

- |                                |                         |
|--------------------------------|-------------------------|
| 1. Caledonian Mountains        | 5. Carpathians          |
| 2. East European Plate         | 6. Balkan Mountains     |
| 3. Central European Depression | 7. Black Sea Depression |
| 4. Variscan Mountains          |                         |

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CSO: 2300/342

ENTERPRISE REPRESENTATIVES DISCUSS PROBLEMS

Bratislava PRAVDA in Slovak 21 Jun 82 p 3

[Interview by V. Sladeckova, J Krajci and D Stancek, PRAVDA reporters: "There Are Problems But Also Solutions"]

[Text] Our reporters arranged an interview with economic managers and officials of party organizations in selected plants and enterprises which found themselves since the beginning of this year in a difficult situation and which acquired the unflattering sobriquet of "nonfulfillers" of their planned tasks. In an effort to review the problems and their solution as thoroughly as possible, we discussed with them the basic scope of vital issues and many questions stemming from them. The participants were Eng Robert Varaca, acting deputy economic manager, and Stefan Oravec, chairman of the CPSL CZV [enterprise-wide committee] in the Bucina national enterprise of Zvolen; Eng Ladislav Burzala, deputy chief of production, and Arpad Szakal, member of the CPSL CZV and chairman of the ROH [Revolutionary Trade-Union Movement] plant committee in Heavy Engineering Works in Bratislava; Eng Miloslav Duris, deputy chief of production in the First of May Plants in Liptovsky Mikulas (for the enterprise), Eng Pavol Bracok, director of Plant 02 of the First of May Works in Stara Lubovna, and from the same plant, Valent Jarzembovsky, deputy chairman of the CPSL ZO [factory organization] and director of the sector for cadre and personnel affairs. PRAVDA was represented by reporters V Sladeckova from the department of propaganda and party life, J Krajci and D Stancek from the department for party's economic policy. Our guests responded to the following questions:

--What were the decisive--objective and subjective--causes why your plant or enterprise failed to meet the tasks of the operational plans since the beginning of this year?

--What are you doing to make up for the shortfall, and when do you expect to balance the slippage in the planned fulfillment of your tasks? What measures have you adopted in this respect, in particular to prevent recurrence of that situation?

Representatives of party organizations replied to the question:

--To what extent and how efficiently are you enforcing the influence of the party--the leading role of the party and the right of control against the economic management--in fulfilling economic tasks of the enterprise?



From an extensive discussion we present the salient points from the replies of the participating economic managers and party officials.

[R Varaca] It may be surprising but unfortunately, it is true. Having successfully completed in the final years of the past five-year plan the comprehensive experiment in efficiency and quality management, last year our enterprise failed to meet its tasks. The main reasons for the failure are: late start of operations in our saw mill in Svolen which had been rebuilt after a fire; an accident affected also the production of fiberboard which could not operate for 4 months and when operation was resumed, the unit was plagued with frequent breakdowns. The same problem has been troubling also the manufacturers of veneer and plywood in our plant in Zarnovica. We are having considerable difficulties with sales of superpressed fiberboard. Shortages in managing and cadre operations must be added to this account. Lack of labor and technological discipline cost us Kcs 8 million in nonproductive costs last year. All these complaints are haunting us again this year. The saw mill has not been completed, we lack funds for foreign-made technology. The unit for fiberboard manufacture was late in starting operation. Moreover, early in the year the blockboard plant in Zarnovica burned down and the unit for fiberboard production was damaged by an accident. All that was reflected in the fulfillment of this year's plan—in 5 months we fulfilled 75.7 percent in adjusted value added; we lost Kcs 18.3 million in returns on operating assets. We are 13.3 percent behind in exports to nonsocialist states, on the other hand, however, we exceeded the ceiling for wage funds by a total of more than Kcs 800,000.

We think that a realistic plan would have prevented these problems. Already when drafting the plan, the management of the enterprise and the party organization called to the attention of our superior authorities that the plan had failed to consider the actual situation of our facilities, in other words, our production possibilities. Even the Set of Measures puts emphasis on the quality of the plan, however, our plan disregards the delayed start of operations in the reconstructed facilities, and this concerns units with continuous or at least two-shift operation; we have practically no space to make up for the lag. The plan envisaged higher prices for exports but the prices of our commodities are stable or declining, i.e., export efficiency is down. Problems have affected also our domestic market—we built a unit for pressed fiberboard but furniture manufacturers are now calling for different, cheaper materials which we cannot supply. The volume of investments is down; there is less interest in assembled log constructions; our storehouses are stocked with materials. Although the task is being met to the advantage of our entire society, we are penalized. Of course, we are searching for some solution, but that cannot be done instantly. How can we explain to our workers that their average wages are down because according to the Set of Measures we cannot draw funds for the movable part of wages if we fail to fulfill the determinant indicators? It is natural that the number of our employees is declining.

As we see it, the current situation may be resolved by determining demanding but realistic tasks which we will be able to fulfill in terms of technology and material. Our enterprise has already prepared an intensification program based on the plan for technological development; we count on the development of rationalization programs; we are looking for new opportunities in sales to



nonsocialist states. In view of the fact that even after the adoption of that program we failed thus far to stop the adverse development in our enterprise, we are supposed to prepare another program--of consolidation. However, it, too, will depend on one factor--we must know what to produce and from what. First we must know what are the realistic needs in correlation with our potential, and then we shall be successful in mobilizing our forces.

[L Burzala] We are the largest producers of hydraulic cylinders in our republic. Their manufacture is relatively simple, however, the machine engineering industry cannot operate without them in the production of lifting mechanisms, ground-breaking, construction and agricultural machinery. With higher demand than the production potential, it seems that we should fulfill our plan with no problems, since cylinders account for 55 percent of our total production. In reality the story is different although none of our superior authorities would recognize it. We began manufacturing cylinders in 1971--with a production in the value of Kcs 45 million--and that was the last time we fulfilled the plan in the production of cylinders. After that the enterprise as a whole would meet the plan in other products but the production of cylinders lagged; the current plan calls for production of cylinders in the value of Kcs 316 million.

We do not have the preconditions to achieve that target. We did fulfill last year's plan but only at the cost of exhausting the entire production. This year we are behind--in the production over 5 months we owe Kcs 30 million in goods. There were no investments in the development of the production of cylinders over the past years; one of our vital technological centers, the chromium-plating unit, has the capacity for products in the value of Kcs 290 million only. There are other problems on hand. Up to 40 percent of technical rubber supplied by Rubena in Nachod for cylinder sealing are rejects. The same type of rubber imported from Yugoslavia is more expensive but even it cannot meet our parameters. The only satisfactory rubber imported from France is the most expensive. We were trying to find some solution in our country. Just to obtain a guaranteed quality we offered higher price to Rubena but we did not succeed; we were told that they could not accommodate us. Another problem concerns the pipes for the production of hydraulic cylinders. There are no norms for their production in Czechoslovakia! Our major supplies are the VTZ [Pipe Rolling Mill and Iron Works] in Chomutov, however, 6 to 8 percent of their deliveries are below our standards of quality but unfortunately, we discover defects only after processing the pipes. Thus, human labor and energy are wasted. We tried also precision drawn pipes; they suit us fine but they are as much as 3 times more expensive. We have a shortage of work forces in both plants in Bratislava; the enterprise made a mistake, we should have concentrated more on the development of production, for example, in Dunajska Streda where we could have avoided such problems. Members of our technical department had not planned adequately the development of the spare parts base in Zeliezovce.

In the sense of the decisions by the 16th CPCZ Congress which stipulate a 250 percent increase of the production of hydraulic cylinders, a modern plant must play a decisive role in raising their production. Its investment plan had been completed some time ago, however, thus far the VHJ [economic production unit] in charge has not done anything about it. I am not advocating new

units at any cost--if we install in them old, inefficient, inaccurate, engery-guzzling machinery. Even the shift rate and utilization of fixed assets pose problems for us. Productivity and efficiency are not achieved in this fashion. Our long-term objective is to remove these difficulties. In order to make up for the current shortfall in the fulfillment of our plan, our enterprise adopted measures which should eliminate it at the latest by the end of October. They involve primarily mobilization of all workers to raise labor initiative. We intend to cut down to a minimum all losses stemming from inferior production; technicians and economists will help in the production as volunterrs and before the end of this year we shall work two additional shifts. However, I can say with conviction that we shall not be able to resolve the current problems in our enterprise over an extended period without more concern about the development and better quality of the material base.

[M Duris] The market has affected our production and thus, also the fulfillment of our plan. With good marketing our plan gets fulfilled much better, and vice versa. We failed to meet our tasks for the first 3 months, however, we caught up with them in April. Then in May we fell again short by more than Kcs 5 million. Now we have in storerooms products valued at about Kcs 17 million in our plant in Liptovsky Mikulas and at Kcs 32 million in our plant in Stara Lubovna.

It is no secret that our enterprise was built primarily to process mainly synthetic fibers. The republic-wide average is as follows: enterprises comparable to ours are processing about 34 percent synthetic fibers in their products but we are processing up to 60 percent.

[P Bracok] As concerns the plant in Stara Lubovna, it was built exclusively for processing of synthetics; the share of synthetic fibers in its products is up to 98 percent.

[ M Duris] Interest in products made from synthetic fibers has been declining. Thus far, polyamide fiber products have been in the highest demand, even for imports. Polyester fibers are relatively expensive in our country. Interest in these products has been declining mostly because our chemical production is still supplying us only with fibers of the so-called first generation, while fibers of the second and third generation have already been introduced all over the world. We need more recent modifications of synthetic fibers for better satisfaction of our needs as well as of hygienic requirements and other demands. It is very important and necessary, for example, for the antistatic treatment of the fibers to penetrate the fibers, not just their surface, so that it does not wash out after few launderings.

(Editor's note: Encouraging information was received from the Petrochemical Research Institute in Novaky and from Chemlon in Humenne. The institute developed, and Chemlon tested in its pilot plant, a new method for permanent antistatic treatment of polyamides. Let us hope that similar methods will be developed for polyester and polypropylene fibers as well.)

[M Duris] Just the same, we have not thrown in the towel when facing our problems. We are fighting for the consumer and for his interests. Every Thursday we prepare and submit about 10 new designs, each of which costs us

approximately Kcs 10,000. That does not mean that we have already won our consumer over to our side. Between him and us is the trade which rejects almost regularly about a half of our designs.

[P Bracok] To tell you the truth, most subjective causes aggravating the fulfillment of the plan appear in our plant in Stara Lubovna. It is a small facility which started operation last year in March. Its work team is young, inexperienced, with the exception of some individuals who had come from Mikulas or who had been in training. There are glaring differences between individual performance and quality of work. However, the standard of operational and technical documentation and organization of labor is low. The plant was delivered and put into operation while still unfinished; for example 93 of the 2,386 documented unfinished tasks and deficiencies have not been remedied to this day. We still have no organizational and management plan. Therefore, the management is frequently forced to improvise. The breakdown rate of our machinery is considerable. Nevertheless, the factory is planning to increase its production substantially--by 35.5 percent (the entire enterprise by 7.2 percent).

[M Duris] What are we doing to make up for the shortfall and to fulfill this year's plan? We prepared a consolidation program for long-range application, which presupposes, among other things, also stopping the current trend of deficits for the enterprise. We must stop producing goods for the storage; we must sell the goods stockpiled in storerooms. We shall replace the current production program with another one, with transition to more sophisticated processing of synthetic fibers, mixed yarns and cellulose. However, that calls for remodeling of our technology.

We adopted progressive measures to make up for the shortfall before the end of June. The first 10 days of June indicated that we should be successful in achieving our objective.

[P Bracok] In April we repaid our debts accrued in January and February, which demonstrates a realistic potential for the fulfillment of our plan for the entire year. In our knitting plants and finishing rooms we plan to operate in three shifts, even on Saturdays, with a morning shift on Sunday. In addition, we completed detailed classification of expert technicians and economists to assist our production. We are offering goal-oriented bonuses for exceeded tasks and organizing socialist competition of individuals. We are regularly reviewing the achievements and publish them in the factory information bulletin.

In conclusion, I should like to underscore that after all, the results of our efforts will depend mainly on our material and technical supplies--fibers, pigments, chemicals, additional agents, because no fabric can be made without yarn and dyed without pigments.

[V Jazzenbovsky] Party and political work in our CPSL factory organizations in the formative stage as regards a comprehensive system. At this time we consider intensive information-gathering by the basic CPSL organization as the base from which evolves the enforcement of the party's leading role and its right of control in objective problem-solving processes of the plant management.



However, in addition to objective problems and effects I recognize certain subjective factors inherent in our people because people are always the factor which determines success or failure. For that reason, in our situation as well as in party work personal agitation and propaganda predominate in informal, lively and direct contacts not only with communists but also with unaffiliated. We are quite confident that this personal propaganda contact with people represents an integral form and method of our party program and that it will help resolve our current economic problems. Our plant is located in an area with no traditions of industrial production (which was established only in recent years); we often face problems with filling the positions of the management, economic and technical personnel with experienced and highly qualified cadres. College graduates have not exactly been "beating at our doors" (although we offer apartments and opportunities for advantageous career and self-fulfillment). About 860 persons are employed in our plant at present; the membership base consists of 125 CPCZ members and candidates (there were only 36 CPCZ members and candidates in 1978). The average age of the employees in our plant is slightly over 27 years, as it is in our party organization. This youth is a promise for the future that once they mature politically and professionally, we shall succeed in mastering subjective problems and achieve prosperity in our plant in general. However, there are certain problems whose solution is not in our power.

[A Szakal] Our CPSL CZV oversees 5 CPSL plant organizations. Our membership base has about 300 CPCZ members and candidates organized in plant 01 in Petržalka, in plant 02 in Bratislava and in the directorate of the enterprise. Communists in the economic management of public organizations help us enforce the leading role of our party. Furthermore, the chairmen of all five CPSL plant organizations are members of the CPSL CZV, which promotes bilateral intensification of the information-gathering function of the CZV and CPSL plant organizations as well as prompt enforcement of our party's influence in every place of work. By the same token the problems discussed here in conjunction with the failure to fulfill planned economic tasks complicate the party's work. We are cooperating with the economic management in mobilizing working people in the ROH factory councils. The economic commission of the CPSL CZV is preparing for us analyses for discussion and proposals of measures to be adopted. Thus, we expanded the document The Main Tasks of the CPSL CZV After the 16th CPCZ Congress with basic appendices (among them in particular political and organizational measures for making up for the shortfall in the fulfillment of planned economic tasks). I am sure that if we apply in practice all measures adopted by the CPSL CZV and by the economic management of our enterprises and plants our joint efforts will make up for the lag and fulfill the operational plan for the year. We shall do everything in our power and possibility, however, the obstacles beyond our control and competence must be resolved more expeditiously by authorities subordinated to the enterprise.

[S Oravec] At this time the number one task in the political program of the CPSL CZV is to concentrate on eliminating the deficit in the fulfillment of our planned tasks in the saw mill and on catching up with our tasks before the end of the first 6 months of 1982. The adopted measures are beginning to show a positive effect in practice. Our 11-member CPSL CZV supervises

14 CPSL plant organizations in Zvolen in plants 01, 11 and in the directorate of the enterprise. In the CPSL CZV we regularly review the fulfillment of economic tasks and with invited representatives of the economic management we are searching for joint methods and solutions of outstanding problems. It is neither unusual or infrequent for us to express our dissatisfaction to some of the comrades in economic management with the nonfulfillment of tasks. As of 1 March 1982 Eng J Briznak (former assistant manager and members of the CPSL CZV) assumed the office of the enterprise director and a completely different atmosphere is already evident in our enterprise. Moreover, we make good use of the economic commission of the CPSL CZV. Among other things, in the CPSL CZV we never discuss a single report from the economic management without expressing the standpoint, recommendation and proposals of the economic commission of the CPSL CZV. The CPSL CZV functions in an area with a total of 3,500 employees of whom about 860 are CPCZ members and candidates. We are really trying to do our best to get out from our current economic predicament, and I can say that some improvement is already in view.

The discussion made it clear that the share of subjective factors--in the enterprise or plant--must be identified in many causes which seem objective for an enterprise or plant; that even when dealing with controversy in supplier-consumer relations solutions must not be postponed until the final stage in negotiations of contract (controversies must be resolved already in contracts) and that the consumer and the supplier must cooperate more closely, exchange information and seek solution already during the pre-planning stage; that an extensive rationalization program for reducing the consumption of materials and raw materials and for more economical exploitation of available resources must precede any requisition of new supplies, and directly in this relation hidden assets must be revealed by reviewing every norm of consumption, costing, etc. Last but not least, the standard of management and organizational work in the activity of all leading managers must be further intensified and labor and technological discipline consolidated in every work team, and in that direction the CPSL CZV and plant organization must focus more attention on enforcing the right of the party's control against comrades in economic management; the fulfillment of adopted measures and specific assignments of the communists must be systematically controlled. Our problems are complex but not unsolvable--in the enterprise as in the supra-enterprise sphere. Time will judge the efficiency of measures adopted by party organizations and economic management in those plants and enterprises as well as in other establishments which are engaged in the same struggle with problems in the fulfillment of their plans.

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CSO: 2400/299

JUHAR REPORTS TO GENERAL ASSEMBLY ON TOURISM, DOMESTIC TRADE

Budapest NEPSZABADSAG in Hungarian 18 Jun 82 pp 3-4

[Speech by Zoltan Juhar: "We Will Preserve the Standard of Living"]

[Text] In the introduction, the Minister of Internal Trade said that in the past four years--since the creation of the internal trade law--we succeeded in satisfying the demands.

/--The present standard of our supply of goods is equal to the level of our economic development and it can withstand the test of international comparison./

For many years, we have almost completely satisfied the population's demand for essential foodstuffs. The selection of milk and milk products, high quality frozen foods which ease household chores, canned goods and baby foods has expanded.

We essentially satisfy the demand for clothing, but it is still objectionable that there is a shortage of fashionable clothes. It often happens that senior citizens are unable to find comfortable shoes and clothing in the stores which are appropriate to their age.

The lunch program for children, students and workers has advanced. At present, 3 million people daily take advantage of this reduced rate service.

Following the 1979 price increases, the restaurant industry's volume decreased temporarily. We find it an encouraging sign that food and soft drink consumption is again growing; the restaurant industry is gradually regaining its patrons. Still more has to be done so that all sections of society can better take advantage of restaurant services.

Errors and Shortages

Besides our accomplishments, we must talk about our concerns--continued the minister.--The population often validly complains about the existing shortages. One must honestly say that within a short period of time we cannot stop some of these, but those which result from the shortcomings of producers and commerce can be eliminated.



/For example, occasionally we do not accurately gauge the expected demand, or industry does not deliver on the basis of its contract./

Let me point out two deficiencies in particular: the problems related to quality and to spare parts delivery. These cause much annoyance, and occasionally added expenses and waste.

There is still much valid criticism of the quality of bread in Budapest despite all that has been done to improve it in past years. For example, the variety of breads and baked goods has increased; new bakeries beginning to operate during the planning period must be further enlarged and modernized. At the same time, greater attention must be paid to the technology of the bakeries, delivery and marketing conditions. Experience proves that truly good bread can be baked from domestic wheat types.

We are conscious that the supply of spare parts has improved very little. Occasionally we have problems not only with the quantity but also with the quality.

After this the minister spoke about the fact that to protect the consumer price level, commerce must carry on more active price negotiations with producers and accept only qualitatively acceptable goods. In the future we want to avoid even more unjustifiable, frequent and excessive price changes but will approve well founded price increases.

This year and in the future we want to maintain the level of the present food supply. This definitively reflects upon the Food Ministry. The number of cheaper items must be increased. We are developing on-the-job and commercial catering services. We have to better adjust to demand, though in many areas this has its limitations. However, we cannot responsibly promise that we will eliminate the present limited selection and quality inadequacies with one fell swoop, or that new ones, for one reason or other, will not appear.

Commerce, continued Zoltan Juhar, in addition to its traditional tasks must assume a much more active role to realize the prioritized national economic tasks.

To help the selected industrial development program, we have organized the production of 15 billion forints worth of consumer items annually by the smaller enterprises and industrial cooperatives as well as the production of consumer cooperatives.

A second task of this type which the minister spoke about was that we have to better coordinate the interests of product supplies and foreign trade than we have up to now. Presently 16 percent of the items on the small trade market come from imports. We do not manufacture most of these domestically or cannot produce them because of climatic conditions.

Importing goods also serves to give incentive toward better quality and modernization. Unfortunately, this is successful in a very limited area at present. With regard to the future we cannot forego the increase of consumer goods imports, since the level of the supply of goods could not be substantially improved without them.

/Our primary interests are dependent upon trade connections and the strengthening of international cooperation. For this reason we urge the specialized manufacture of essential goods within COMECON./

Our goal is to enable the purchase of modern products appearing on the markets of socialist countries to be available in every other country.

As the third task, Zoltan Juhar referred to the more active role that trade, working closely with industry, must assume in order to fulfill the energy program.

--The number of people has increased--continued the minister--who have built or renovated their homes with state credit. To this end, we would like to create such conditions in building, installation and maintenance material that lessen the already great burden of the builders. There have already been good starts. The development has already begun of the "Feszek" department store chain which provides a complete selection of necessary materials, goods and services needed for home building and furnishing.

#### Shopping Conditions

State companies handle almost two-thirds of the retail trade and more than 90 percent of the wholesale trade. Their activities have been greatly expanded and modernized, will at the same time improve the ability of the villages to retain their population.

Shopping conditions are also influenced by the length of business hours. Trade business hours were essentially established in accordance with the demands of the population and therefore weekly business hours were not curtailed. On Saturday, for example, practically the entire network is at the disposal of the shopper rather than the one store on call.

#### Tourism

The political and economic significance of tourism is growing in our country--continued the minister. Tourism exerts a beneficial effect on our economic and social lives. It promotes a more realistic judgment of our social system by international public opinion and it can increase our country's international prestige.

/Tourism also plays an important role in the strengthening of friendships between peoples. Therefore we will pursue an active tourist policy in the future./

The number of our citizens' foreign trips reaches 4-5 million a year. 1.3 million workers take advantage of reduced rate vacations and 1.5 million Hungarian citizens vacation at commercial resorts. In the future we will strive to satisfy the demands of domestic tourism with a more flexible price policy and new programs.

Our political interests are also connected to the strengthening of our relations with socialist countries through tourism. Their inhabitants comprise 85 percent of the foreigners visiting our country, and 90 percent of Hungarians traveling abroad visit our brother countries. We continue to strive for the development of effective tourism which is more systematic and better aligned to our capacity than previously.

Our capitalist tourism is far more modest, but is also developing. This is shown by the doubling of our foreign exchange revenue during the past three years. Both the income per tourist and the proportion for organized tourism have increased.

The hotels which have already been built and those under construction within the framework of tourist cooperation indicated the mutual advantages to both parties that stem from a neighborly relationship with Austria; this is further evidenced by the fact that one out of three western tourists visiting our country is Austrian. Presently, two-thirds of the western tourists arrive from Austria and West Germany.

#### Safeguarding of Interests and Appraisal

After this, Zoltan Juhar said that as a result of the internal trade law, the legal system protecting consumer interests and the supervisory systems have been strengthened.

The handling of consumer complaints was regulated on the basis of the law. The premise is that

/the seller is responsible for the quality of goods, even if the damage occurred during manufacture or shipping of the item./

The complaint must be remedied at the place of purchase; however, the party responsible for the damage must assume the cost.

This year the National Consumer Council, a consumer protection social organization was formed under the aegis of the Patriotic Popular Front. Authorized by the government, this council can initiate proceedings in the areas of production, distribution and services.

In conclusion, the minister talked about the reliability, and the financial and social positions of the nearly 450 thousand trade workers. --Nearly 64 percent of the trade workers are women--and the proportion is about 80 percent among the store workers. Many of them are raising small children. Many seek new jobs because of physical and emotional exploitation, unfavorable work shifts, heavy physical labor involved with the moving of merchandise and unsatisfying social conditions. In a few trades and areas, primarily in the capital and industrial centers, manpower problems in the food and retail trades were intensified which already adversely affect the level of services in some areas.



At the end of his speech, Zoltan Juhar called attention to the

/further improvement which was required in the training of trade workers, behavior and quality of work. However, our workers rightfully express a need to receive more financial and social appreciation for their well done work./

#### Discussion on the Speech

The activities of this sector are developing in the proper direction—Laszlo Hosszu said explaining the opinion of the Parliamentary Trade Committee. —The law is suited to further advance the more complete fulfillment by trade of consumer demands.

In today's world economic situation, the level of food supply can be classified as good even by international standards; for this we can commend primarily the organization of the food economy, the fruitful cooperation between industry, agriculture and trade, as well as the appropriate use of the interest system. Consumer goods are at a satisfactory level, but even today it is indisputable that there are shortages. Therefore the influential role of trade must be further strengthened in this respect which has already brought good results—Janos Tausz, among others, explained.

He emphasized that our internal trade policy is presently on the right track, and is in harmony with our entire economic policy; therefore, we must continue the modernization of our trade system in this direction.

The representatives participating in the discussion subscribed to the idea that the possibility of quickening the pace of development was contained, for example, in the further shortening of trips undertaken to transport goods and in the restructuring of the overly rigid separation of retail and wholesale activities.

Laszlo Radnoti, Maria Mesterhazi and Laszlo Barta spoke about their experiences to date with contractual operations. For example, Laszlo Barta, Council President of Szolnok County, said that already almost 200 stores operate in this fashion, and the performance of the shopkeepers is satisfactory and meets expectations; the selection of goods as well as the level of service has improved.

The feeding of children has come under the management of specialized enterprises in many places in the country. The children and almost 90 percent of the students in Szolnok County lunch through the arrangement of the restaurant industry. Thus there is an opportunity to improve the quality of food and to free up space for teaching purposes in the schools.

The improvement of the level of supply in the village settlements causes particular problems. These problems were discussed by Representatives Bela Harasi and Mrs. Laszlo Dancsak. Bela Havasi said that the population retaining ability of the villages was aided, for example, by raising the

levels of basic food supplies. The solution to this problem is not easy but it is essential. The majority of fixed priced goods and consumer goods brought into circulation by trade which has a low profit margin increases the problem; they barely insure a minimal profit.

Mrs. Laszlo Dancsak explained that in her voting district--the district of Paszto--the population in half the villages does not even reach one thousand; a portion of the store network is outdated and run down. In many places, the delivery of goods is haphazard, the store managers do not take risks. She emphasized that we must pay attention to the complaints of the populations in small settlements; they find the discrimination in trade provisions to be insulting.

In the discussion much was said about the development of tourism. Laszlo Radnoti pointed out that the country has favorable attributes and considerable underutilized resources. For example, by extending the recreational season, the establishments in the Balaton region could be more economically utilized. Gabor Szucs, representative of Hajdu-Bihar county, said that the quickly growing domestic and foreign tourism creates its own set of demands on commercial supply, development of housing accommodations and the expansion of services. The county did much for tourism in the past few years; they saw to the expansion of the health spa at Hajduszoboszlo and a few years later new pools and recreational areas were available to the guests.

Exploring the possibilities for expanding trade, many spoke of increasing the volume of trade across the borders. Among others, Laszlo Toth, representative of Csongrad County, said that the exchange of goods along its borders constitutes a significant role in the commerce of the county. In five years, the volume has increased more than sixfold. He suggested that the Trade Fair of Szeged, for which 130 Yugoslavian exhibitors have already applied, be used to boost trade across borders. Maria Mesterhazi also said that the exchange of goods across the borders of Vas County has helped to raise its level of commercial supplies.

On Friday, our legislative assembly will continue its work by discussing the speech of the Minister of Internal Trade.

9956

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## TSZ'S USE NEW FORMS OF WORK COLLABORATION

Budapest MAGYAR MEZOGAZDASAG in Hungarian 16 Jun 82 p 4

[Text] The new agricultural employment regulations have aroused the interest of TSZ [producer cooperative] members and employees. Although they do not yet make perfect use of the possibilities offered by the regulations there are a number of examples that the provisions have started a favorable process. This is shown in a compilation by the megye editorial offices of the Hungarian Telegraph Office which we leafed through in order to show a few good initiatives which should be followed.

In Vas Megye a number of farms signed work contracts with the family members of TSZ members who participate in the common work. At the Savaria TSZ in Gencsapat they employ family members in felling trees and planting and caring for saplings. At the Sopke cooperative they employ family members in crop cultivation. In common farms with larger orchards the members work during work time and outside of their job sphere almost everywhere. At Memesco the members produce ornamental plants on a shares contract. There are also examples of cottage industry. At Repcelak the family members make cheese boxes at home for the milk industry. At Hegyfalu they make linens, at Kan shoe uppers and at Jakfa cord and shipping bags, with the producer cooperative as prime contractor. In several places in the megye the cows and steers owned by the farm are put out in the household plot sheds so that the animals remain the property of the TSZ while those undertaking the work receive money for maintenance, feed and care in return for the milk or added weight.

In Pest Megye cultivation on shares is more characteristic of the traditional fruit producing regions. The TSZ's provide the machine cultivation, basic materials, transportation, chemicals, etc. while the members and those applying to do so undertake the hand work, cultivation and harvesting. The larger part of the crop goes to the farm, but naturally the contracting parties get a share for their efforts. The experiences are especially good in strawberry production. This work link develops with greater difficulty in the vineyards; in most places those undertaking the work get wages for caring for the plantings cultivated on shares; in addition they can get shares from the extra production. Recently the farms of the megye have been hiring the collectives after work hours in business organization, data processing and technical areas also. According to the most recent surveys 20 such collectives, with about 200 members, now work in the megye. This is done on, among others, the TSZ's in Ocsa, Kerepestarcsa and Rackeve and, in the capital, on the Sasad and



Obuda producer cooperatives. The common farms have also organized a number of special agricultural groups; the members produce bulbs and care for poultry in Szigetszentmiklos, keep sport horses at the Erd TSZ and have undertaken sheep raising in Tapioszentmarton, in return for appropriate income.

In Fejer Megye use of the new method will come up for the first time on a large scale at harvest time. Up to now, on a number of farms, people who worked elsewhere manned the machines. This year members and employees of the producer cooperatives who work on other assignments and have applied for this as extra work will drive the combines and tractors. At the Sarbogard TSZ the mechanics in the repair shop will replace the outside work force and on the Tabajd common farm in-house workers will be hired to detassel the hybrid corn. At the Zamoly producer cooperative the construction brigade undertook to do lumbering in the winter season; the method has been a complete success here.

In Baranya some of the members of the Bogad producer cooperative got together, within the framework of shares cultivation, to plant vines which could be cultivated with large scale methods, thus aiding realization of the vine planting program. The TSZ undertook the earth working and acquisition of graftlings while the members of the association will do the planting, and later the cultivation. The members got 20,000 to 25,000 forints in support for this from the TSZ, and they can take out an investment loan also. The Villany-Mecsekaly Wine Combine is signing a contract with them to receive the crop. The planting on 10-15 hectares adjoining the large scale area also serves to renew the wine region.

Since fall of last year two new special groups have been formed in Baranya. In Egyhazaskozsar some of the members have committed themselves to taking care of the sheep stock. In Szederkeny they set up a grape production and marketing special group. In Pecsvarad they are planning to organize a wine purchasing special group and in Sasd they are planning to form a bee keeping special group. Separate work for the members is needed especially in those TSZ's in the megye where the production conditions are poor and manpower is short. Ever more frequently, cowherds harvest hay in their free time while truck drivers drive the combines and, at the time of extended harvest shifts, undertake to maintain the machines.

In Komarom Megye, on the basis of good experiences in previous years, the Golden Ear Producer Cooperative in Aszar has signed a 5-year cooperation contract with 150 small producers. There have been applicants not only in Aszar but also in the neighboring villages of Hanta and Barsonyos, largely among industrial workers. Those on contract participate in cultivation of the grapes from spring to harvest; at present many work on the tying up also. The common farm pays not with money but with work of the same value--cultivating the household plots by machine, bringing in the produce from them and selling artificial fertilizer 20 percent more cheaply than the retail price. The TSZ was also relying on the cooperation when it expanded further this branch, which has already won more than 100 prizes at wine competitions. In years to come the vine area will increase to 200 hectares and they plan to process the entire crop themselves.

COMMERCE OF AGRICULTURAL CO-OPERATIVES EVALUATED

Budapest MAGYAR MEZOGAZDASAG in Hungarian Nos 24, 25; 16, 23 Jun 82

[16 Jun 82 p 3]

[Text] In the past 20 years the production of agriculture has increased by 69 percent, while gross commodity trade has increased by 177 percent. As an average a 1.9 percent expansion of trade accompanied every 1 percent expansion of production on the producer cooperatives. An increase in commodity trade at a rate exceeding the increase in production was also characteristic of the small producer sphere.

By the beginning of the 1980's the ratio of commodity production had risen to 95 percent in animal husbandry and 70 percent in crop production. These figures show that commodity production by the cooperatives had entered a qualitatively new developmental stage, characterized by the development of market oriented production and by the approximate identity of the rate of growth of production and commerce.

Market-Centered Behavior!

The more severe external conditions of the economy are increasingly forcing the cooperatives to display better thought out organizing work in exploiting the reserves of the commercial sphere--in addition to organizing production.

The increased volume and specialization of commodity production require, on the one hand, new types of links between the production and trade spheres and, on the other hand, the building up of in-house processing, where this is possible.

For years the leading producer cooperatives and the state farms have been developing their processing, storage and packaging capacity in a deliberate way on the basis of long range programs. They thus improve the quality and marketability of their products and increase the economicalness of the entire vertical activity. Amidst conditions of strengthening competition the vertical structure of production, processing and marketing is not only an essential condition for preserving quality and improving profitability but also an important requirement of market flexibility, staying on the market. For a long

ine the shortage of circulating funds has hindered commodity trading work better meeting market demand and more active commercial action also.

Laying a foundation for the effectiveness of marketing from this side makes necessary more proportional use of developmental resources, regrouping them for purposes of storage and processing, and central measures which will encourage this more determinedly.

Progress in the area of processing is strongly differentiated by article groups and between cooperatives. Initial results are appearing in fodder manufacture and in poultry and milk processing. At the same time, the role of the cooperatives is modest in wine production, seed production, the refrigeration industry, vegetable processing, and other important areas.

Building a completely vertical structure for the grain economy, the coordinated development of production, quality preservation, storage, fodder manufacture and trade, is a significant factor for increasing efficiency. This merits special attention, not only because it improves the profitability of the grain branch but also because it aids a better supply of fodder for animal husbandry, lays the foundations for small scale animal raising and decreases trade costs. By seeking new partners, and reducing the number of middlemen the cooperatives are striving to counterbalance the unfavorable effects of the monopoly situations which could be regarded as general in earlier years. This is shown by the direct trade links with various large consumers (social institutions, catering enterprises, etc.) and foreign trade enterprises, by linking directly into public marketing and by the creation of commercial associations.

#### The Organized Nature of Trade

Despite the undoubted progress, in some cases commercial viewpoints still remain in the background in enterprise decision making; the level of organizational work lags behind what is demanded in production. They are still considerably at the mercy of others in marketing and acquisition alike, they are frequently in tight corners, and not rarely decisions are motivated by momentary circumstances and interests.

The organizational conditions for commercial work are extraordinarily varied and as a whole show a picture of slow transformation. In many places the annual production programs and incentive factors of some branches and organizational units are rationally linked to the requirements of organizing marketing, improving quality and increasing receipts. As a result of this those guiding production are better informed about markets, commercial techniques, standards, etc., but the deficiencies which can be found in this area are still considerable.

The acquisition of the tools of production ties down large forces in the cooperatives. The situation has become especially intolerable in trade in power and working tools, vehicles, various types of equipment and parts. In the absence of a uniform, modern record keeping system and up-to-date operational information, finding even obtainable parts is extraordinarily complicated. For this reason a great deal of work time is expended on and there are many empty runs made in the name of acquisition, and over-stockpiling as a result of the shortage psychosis is significant.

In few places do they have an organization for stockpile management which really manages the stockpiles purchased or produced. There are deficiencies in the planning of acquisition. In the case of reserves purchased there is not an adequate harmonization of orders among the several organizational units. There is frequent spontaneity, which is one cause of the growth in idle stockpiles.

It happens that the enterprises trading in tools of production, exploiting their position, deliver items differing in quantity or quality from what was ordered, or fill the orders only after delays. Faulty deliveries are rarely returned, and the losses deriving from this are considerable.

Despite the cooperation which has begun in hog production, poultry production and other branches, production and marketing cooperation based on mutual interest and risk is not yet of determining importance. To an exaggerated degree organizational independence is coupled with an alienation of interests, which frequently breaks the product path and weakens efforts aimed at improving quality and increasing marketability.

#### On the Basis of Mutual Interests

We can continue to regard contract links as the chief form of marketing, but in the future these should be enriched with more interest elements. The improvement in quality, the proper scheduling of commodity delivery and acceptance and a strengthening of contract discipline must be based on mutual interest. To an ever greater extent contract links must extend to the acquisition of the tools of production also, thus strengthening delivery discipline and the fulfillment of obligations undertaken.

The system of classifying agricultural products follows changes in market needs; objective methods based on use of instruments are spreading.

It is an important condition for realizing producer interests that the cooperatives--making use of the possibilities in the regulations--really participate in the classification work connected with the delivery and acceptance of products. The regional federations of producer cooperatives and the TSZKER [expansion unknown, possibly Producer Cooperative Trading Enterprise] employ a total of 460 permanent and seasonal experts within the framework of commodity delivery services conducted on behalf of the cooperatives. Their work is an important link in economic interest protection. More attention than heretofore must be turned to professional guidance of them and to making use of their experiences.

The organizational modernization of some of the food industry branches and the increase in enterprise independence promise conditions more favorable than before for building closer production and marketing links. Exploiting the possibilities will depend in large measure on the recognition of common interests and interdependence and on the action unity of the cooperatives.

(In the next issue of our journal we will review the structure and directions of commodity trade, the conditions system for trade by agricultural cooperatives and their export market activity.)



[23 June 82 p 3]

[Text] At the end of the Fifth 5-Year Plan the agricultural cooperatives and their household plots sold agricultural products worth 93,501 million forints (at current prices). The growth, compared to the first year of the plan period, was 19.8 percent.

In 1980, enterprises and institutions purchased 92 percent of the goods sold. The remainder was made up of products traded in their own shops or markets or trade directed to other agricultural sectors.

#### The Structure and Direction of Commodity Trade

The reduction in "linked trade" through middlemen, that is, having direct forms of marketing come into the foreground, can be judged as favorable. In trade in fruits, vegetables and potatoes, for example, the ratio of direct purchases by Hungarofruct, the canning factories and other enterprises increased. Public trade in their own shops and markets essentially stagnated in the past plan period. Trade by the 2,100 shops and catering establishments has leveled off around 4-5 billion forints per year.

The significant developmental and maintenance burdens do not encourage any substantial expansion of the shop network. The majority of the cooperatives conduct direct public sales primarily with an eye to the needs of members and the social environment.

Purchased tools of production make up an increasing part of the tools of production used by the agricultural cooperatives. Productive consumption in agricultural production increased from 53.7 billion in 1976 to 73 billion in 1980 (at current prices).

Fuel use in this period increased from 8.6 billion forints to 12 billion, and machine maintenance increased from 12.3 to 16.5 billion forints. Use of industrial fodders and artificial fertilizer essentially maintained its level (hovering around 13-14 and 9-10 billion forints respectively).

Growth could be experienced in use of crop protection materials, in service fees and in use of other materials of industrial origin. The specialized trading organizations play a determining role in trade in tools of production. The cooperatives purchase about 80 percent of their machines, equipment and materials of industrial origin from the Agroker enterprises. But trade conducted in the producer's interest, the acquisition of tools of production by the TSZKER, is expanding gradually. In 1981 the trade was 3.2 billion forints. Trade in tools of production by the production systems is developing dynamically; this has palpably improved the supply security of the member farms.

Sale through the common farm of goods originating on the household plots of producer cooperative members and the small farms of outsiders shows an extraordinarily swift growth. The value of this trade increased from 14.4 billion in 1976 to 32.4 billion in 1980. A similar trend can be found in the organization by the large farms of the supply of the tools of production for small producers.

The marketing of vegetables, porkers, slaughter rabbits, slaughter cattle, poultry, grapes and fruit from small producers has increased. But the role of the large farms in technical-material supply for small production has increased also. Trade in fodder mixes, crop protection materials and small machines and the provision of agricultural services--primarily transportation--have increased. Trade data and practical experience alike show that the producer cooperatives have taken effective measures in the interest of integrating small production and they are using its possibilities well.

In general the profit margin realized through commercial activity, about 4 billion forints, covers the expenditures of the trade sphere. But it does not create an adequate material source for the development of production or the technical conditions for storage, materials movement, commodity preparation of packaging. And this creates an ever more serious situation in the loss-free, cultured conduct of the increasing trade.

An upturn in multi-channel trade can be expected from the abolishing of some of the organizations of the processing and commercial trusts and from the dissolving of the zone boundaries. The organizational modernization carried out at the beginning of this year in the system for trade in tools of production expanded the possibilities for multi-channel trade and points in the direction of a development of healthy competition. Extraordinarily significant national economic and cooperative interests attach to the success of the reorganization, to more coordinated work among those manufacturing, importing, trading in and using tools of production.

#### The Conditions System for Product Trade

All this means that from the organizational side one can and must count on new external conditions in the commercial work of the cooperatives.

The material conditions for multi-channel trade continue to be unfavorable, especially in the area of acquiring the tools of production. In general the supply of circulating funds for the newly independent commercial and processing enterprises is satisfactory, but the new organizations trading in the producer's interest--TSZKER and the production systems--are for the most part working on credit with high interest rates. The worsening financial conditions put real limits on an expansion of trade and weaken the competitiveness of the new trading channels.

It is a source of fundamental problems in the area of acquiring tools of production that despite a significant price increase the technical level and quality of the tools lags behind the production demands. Even in a system of multi-channel trade acquisition moves in practice along a fixed path, because in many cases variety and demand are not in harmony.

As a result of the quality requirements the significance of standardizing agricultural products has increased. The majority of the product standards are realistic and contain quality prescriptions which can be met, but it also happens that exaggerated prescriptions, divorced from the objective production conditions, receive authoritative support. Each year the marketing of

agricultural products involves the shipment of several tens of millions of tons of goods, tying up a considerable part of the transportation capacity of the economy, with great seasonal variation. The receptivity of the railways and the border crossing points represents the primary bottleneck for transportation. Making insufficient cars available or making them available to the cooperatives late causes considerable losses in both domestic and international rail deliveries. The underdevelopment of other elements of the infrastructure, especially the backwardness of the provincial communications network, means serious difficulty in improving the organized nature of commodity trade and in maintaining commercial contacts.

#### Opening to the Foreign Market

Following the 1977 resolution of the Central Committee of the MSZMP, and especially in the past 2 years, a number of central measures have aided an improvement in the ability of the cooperatives to carry out export, and they have furthered a development of incentive relationships. Forward movement can be experienced in the linkage system between cooperatives and the foreign trade enterprises. The changes expanded the number of trade channels and the possibilities of choosing your partner. The development is indicated by the appearance of foreign trade associations in which about 200 producer cooperatives and cooperative associations now participate. New, parallel trade channels have opened to expand free-trade, non-ruble accounting export (Generalimpex, Hungarocoop, etc.). New accounting forms between cooperatives, the foreign trade enterprises and the linking domestic traders have come into being, called upon to further the realization of mutual interest and responsibility (for example, in regard to slaughter cattle and wine).

But thus far, direct export interest—having an effect on the structure of production and the quality of goods—has developed for only some of the cooperatives or those producing commodities. The large volume agricultural articles continue to move on a fixed path and in the case of free-trade articles the role of the commercial organizations interposed between the cooperatives and the foreign trade enterprises remains significant. The intervening factors make it difficult to see clearly and make difficult a flexible accommodation to market conditions.

The domestic links of the foreign trade enterprises (maintained with the producing organs) are undeveloped. Even in the case of members of foreign trade associations participation in business discussions has not become the practice. Thus both sides lack information about the economic conditions or activities of the other. Despite their readiness for and interest in discovering new marketing possibilities the cooperatives can participate only in a limited way.

For the time being the new trade channels opened for non-ruble accounting export offer only modest possibilities of choice. Trade along the parallel paths is dwarfed by the specialized foreign trade enterprises; the monopoly situation is being dissolved slowly and contradictorily.



The change in market relationships and the growing demand for efficiency make it urgent that the commercial work of the cooperatives and the activity of the processing, tool manufacturing and trading organizations connected with them catch up with the requirements of intensive agricultural production.

8984

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## ECONOMIC STIMULATION THROUGH MONOPOLY TAX PROPOSED

Warsaw ZYCIE GOSPODARCZE in Polish No 23, 27 June 82 pp 1, 4

[Article by Jozef Popkiewicz]

[Text] Lack of competition is often regarded as the main weakness of a socialist economy and the creation of it as a necessary factor for effective functioning of enterprises.

It is difficult, however, to imagine conditions under which socialist enterprises would compete among themselves for the highest profit and profit rate or for the most profitable capital investment, thereby operating in accordance with the classic definition of free competition in pre-monopolistic capitalism. In any case, it is hard to find this type of free competition in today's developed capitalist countries, which does not mean that an even keener and more ruthless competitive struggle does not take place there, although its organizational forms have changed radically. The persistent source and driving force of this struggle are the everlasting sales difficulties, arising from the very essence of capitalist production which is directed at obtaining maximum profits and at reducing the wages and demands of the laboring masses to the maximum. It is these sales difficulties that are at the base of the operation of economic mechanisms, forcing capitalist enterprises to reduce production costs, improve quality and expand product range, and to most efficiently apply and utilize capital.

The question arises, therefore, whether it is possible to create under conditions of, after all, a monopolized socialist economy, equally effective economic mechanisms which can be mastered and methodically utilized in the interests of society, while avoiding the social and economic losses that inevitably accompany capitalist competition?

As distinct from the capitalist economy, the dominating factor in socialist countries is excess demand, growing faster than it can realistically be satisfied. It is the consequence of an active wage policy, dictated by social consideration, and a basically rigid price policy. As a result, there is a rapid growth in wages for which there is no coverage in a much more slowly rising labor productivity. This kind of wage and price policy gives rise to an inevitably specific inflationary gap and curve, which is not accompanied by a natural, in this situation, growth in prices.

Thus a producers market--so characteristic of most socialized countries--forms, whose relatively constant source is the excess demand not actually covered by increased production of goods and services. This demand, unfortunately, not only does not constitute a driving force for the economy, but simply the contrary, it becomes a large burden and brake on the economy. The producers market, in a socialist economy, creates a specific monopolistic situation, independent, as a rule, of the degree of production concentration and centralization. Under these circumstances, enterprises have involuntarily become monopolists, without the need to consult among themselves and form a cartel, for in almost every field of production they produce, in the aggregate, less than the actual demand, determined by the prices in effect and the population's nominal income.

In place, therefore, of the sales difficulties characteristic to capitalism, there forms in the socialist economy a specific producer market, creating extremely convenient functioning conditions for the enterprises. It allows them to exist and even develop without the need to be constantly concerned about reducing production costs, improving quality, increasing quantity, and expanding the range of their products.

Such possibilities are created for them by the price gap--typical for the producers market--which excess demand creates between the equilibrium price, obtainable on the market, and the computed price (lower than the equilibrium price), guaranteeing permissible standard profitability. This gap, without difficulty, reflects all kinds of costs, including those caused by waste and economical management, and a profit surcharge which rises parallel with costs.

Under these conditions, the costly price formula, unverified by the market, can function freely, giving more encouragement to increasing of production costs than to decreasing them. At the same time, positive incentives linked to wages and profits are becoming weaker, since both wages and profits can be increased easily without the effort that a growth in management efficiency requires. This increases the pressure on the nominal growth in wages, which are not compensated by a growth in labor productivity, and the tendencies of enterprises to increase profits by simply increasing prices are intensified. This again forces the tightening of administrative control over the wage fund and progressive taxing of profits, which still further weakens their incentive activity.

Therefore, if economic reform envisages full restoration of market balance and broad utilization of a market mechanism, then one of the most important and urgent tasks of economic policy should be the elimination of the very damaging and economy-disorganizing producers market and the price gaps which allow it to exist. This means that it is necessary to immediately bring contract and regulated prices to the level of market-balance prices. This also means a basic change in the establishing of official prices, whose substance should not be limited to maintaining their low level and subsidizing production shortages, but to expanding production so as to enable it to cover the increased demand produced by these prices.

These tasks, unfortunately, were not fulfilled by the recently applied price reforms and it is difficult now to expect the producer market to automatically disappear. This would take too long and would cost our economy too much, particularly since the elements of the old orders-distribution system which still remain create a fertile ground not only for constant renewal, but also for widening of the price gaps that

are peculiar to this market. The pressure for wage increases continues to be so great that demand can always grow faster and exceed any possible growth in the supply of market items.

But it is possible, as I will show, to deliberately reduce and gradually force out the producer market by eliminating the price gaps which are its source. The main road leading to this goal is a quick increase in contract and regulated prices to a level of prices which will equalize demand with current, or anticipated in the very near future, supply. Such an increase is, in any case, sooner or later, unavoidable, since the only alternative to market-balance prices is state control, which is contrary to the very essence of economic reform.

Thus instead of waiting idly until the enterprises themselves bring out market-balance prices as a result of constant increases in costs, wages and prices, if, of course, the continued growth of demand does not pass them up in this race, we can and should take steps earlier to deliberately close the price gaps everywhere they appear or can appear. This process, based on equalizing sales prices to the level of market-balance prices, should be conducted selectively, beginning with durable goods, considered to be luxuries, and ending with the most indispensable daily necessities.

It is hard to expect the enterprises, which are in no way stimulated or forced, to take action to eliminate a producers market which is so convenient for them and to restore a buyers market which is so desirable for society. Such action would, under the present conditions of almost universal market imbalance, be in conflict with their current, thus their most immediately affected, interests. That is why it is necessary as quickly as possible to create an economic mechanism which would encourage and compel the enterprises to operate in such a way as to join their interests with the vital interests of society and the national economy as a whole.

A sliding-scale monopoly tax could fill the role of the main and most effective instrument in this mechanism. The rate of this tax would be variable and would be established flexibly for a year depending on an already existing or anticipated in the near future price gap. This tax would be fixed by the Price Office or its organs, analyzing the market situation, separately for each group of goods. It would be necessary, too, to anticipate the possibility of flexibly applying reductions if sales problems, caused by the tax and the increased prices, turned out to be extreme and threatened unrecoverable losses. Such reductions, for example, could be made for seasonal or periodic sales of accumulated stocks at greatly reduced prices.

The goal of the sliding-scale monopoly tax which I propose should be:

--to eliminate price gaps or prevent them by equalizing contract prices, and regulated prices especially, to the level of market-balance prices;

--interception, by the state budget, of the monopoly profit which is now and may continue to be absorbed by waste and uneconomical management by enterprises;



--initiating and utilizing a market mechanism which will force the enterprises to constantly strive to reduce production costs, improve product quality, increase size and range of production, and efficiently utilize its own funds and bank credits.

The schematic diagram shown here describes, in terms of statistics, the functioning of a sliding-scale monopoly tax.

To strengthen the influencing force of this tax on the enterprises' decisions, it is necessary, in my opinion, to fix its rate at a level which would bring the sales price to an amount which would equal, or actually somewhat exceed the market-balance price, rather than to an amount below the market-balance price. Thus sales difficulties would be created, or intensified, forcing the enterprises to constantly overcome them or avoid them, which they could do by reducing costs, ensuring that they will obtain past profits at full sales but at reduced prices, or by improving the quality of the goods and enhancing their range, which would facilitate full sales at prices set by the monopoly tax.

Only in this way could the enterprises ensure themselves the profitability of production indispensable for their continued existence and development. Every increase in profits would be possible, therefore, mainly through an increase in production, which would be rewarded by a commensurate reduction in the monopoly tax until it would be removed completely. The reduced monopoly tax, combined with the expansion of production, would facilitate sales at reduced prices even when unit costs of production could not be reduced.

Total abolition of the monopoly tax on the goods and services specified would take place when the market-balance prices appearing ensured only an average, i.e., a standard profit. These, then, would be the prices correctly referred to in "Directions of Economic Reform" as ultimate optimal prices. They would also mean that an optimal price structure is being approached which corresponds to optimal, from a societal standpoint, sizes of sales and demand.

Thus, although a permanent institution, the sliding-scale monopoly tax from its very inception would have, in relation to the particular enterprises, a temporary character and would be gradually abolished as the producer market is overcome and the buyers market restored along with the ultimate level and structure of prices. However, incomes which the state budget would obtain as a result of this could be used both for an increase in wages and social benefits as well as to subsidize production shortages of products covered by official prices.

A sliding-scale monopoly tax cannot, of course, be applied to basic consumer goods covered by official prices and requiring budget subsidies. The main task of these type of subsidies is, on the one hand, to ensure profitability of production, and on the other hand, to make it possible for specific groups of people to obtain specific goods at reduced prices.

Unfortunately, a decided majority of official prices in our country deviate considerably from market-balance prices, which, in advance, predetermines the necessity to exercise state control over the goods covered by these prices. We do not always realize that the administrative reduced official prices produce an understandable

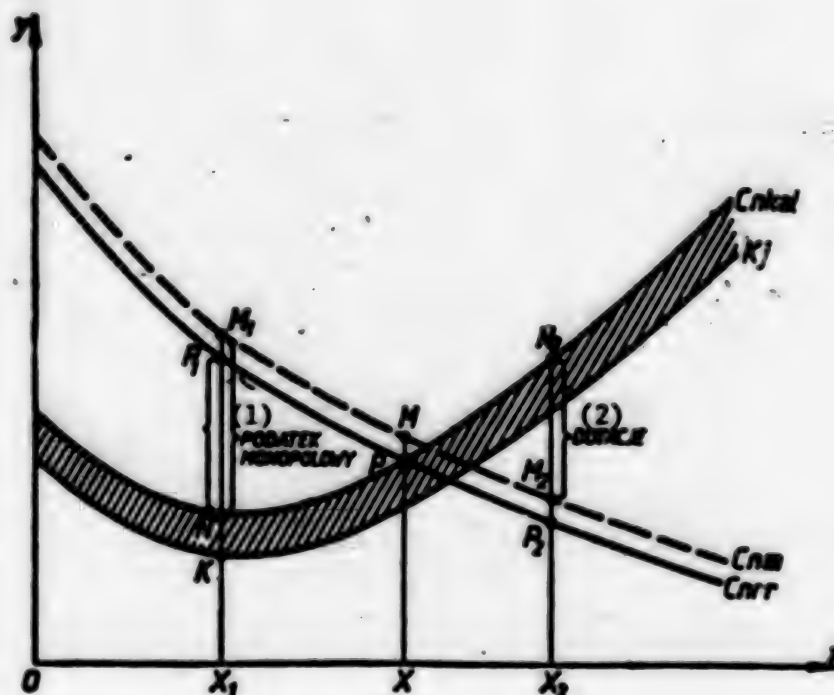


Figure 1. Schematic of Functioning of Sliding-Scale Monopoly Tax

Key:

1. Monopoly tax
2. Subsidies

- Cnrr - Market-balance price curve  
 Cnkal - Computed-price curve, ensuring standard profit  
 Cnm - Price curve taking sliding-scale monopoly tax into account  
 Kj - Unit cost (average) curve  
 P - Ultimate optimal price, equalizing demand with supply and also ensuring standard profit  
 $P_1$  - Market-balance price at  $OX_1$  production sizes  
 $M_1$  - Price taking  $NM_1$  sliding-scale monopoly tax into account  
 $M_2$  - Price taking  $N_2M_2$  budget subsidy at  $OX_2$  production sizes into account

increase in demand which is not able to satisfy the current level of production and supply. There then appear a kind of adverse price gaps, created by the disparity between selling prices that guarantee profitability of production and the lower sales prices.

These gaps must be filled in by budget subsidies, whose social rationale would be better understood if they stimulated enterprises to increase production and thereby full satisfy the increased demand. Meanwhile, the effect of subsidies on the recovery of economic balance is, at the moment, small, and even negative on a reduction of production costs, for it seems to sanction their present level.

That is why justifying additional financing of production by social considerations should fulfill the same role in the policy of official prices as the sliding-scale monopoly tax can fill in the area of contract and regulated prices. The main task of budget subsidies, therefore, should be not only to ensure profitability of production, but, and even primarily, to expand its size until complete market balance is achieved.

It may seem that instead of a rather complicated monopoly tax, a considerably more simple tax could be applied--a uniformly set stabilization tax, or a so-called luxury tax added to prices of a selected group of goods. I would like, however, to call attention to the basic differences between the two types of taxes. Aside from its temporary and flexible nature, the sliding-scale monopoly tax should serve to restore market balance as quickly as possible and to maintain the price structure on an optimal level from the social standpoint. However, the stabilizing tax and others like it perpetuate the existing, even the most distorted, price structure, and only indirectly affect total balance.

In outlining the general conception of a sliding-scale monopoly tax, I am aware of the various problems connected with implementing it, and especially with establishing the rate of the tax and with collecting it in the sphere of production or trade. But the cost of overcoming these difficulties seems to me to be incomparably low in view of the economic and social benefits that this tax can bring to our economy.

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NEW FOREIGN EXCHANGE RATE SYSTEM IMPLEMENTED

Warsaw ZYCIE WARSZAWY in Polish 30 Jun 82 p 4

[Article by Henryk Boruciński: "The Economic Reform -- New System of Currency Exchange Rates"]

[Text] In the realm of the rates of exchange for foreign currencies, the economic reform has met one of the basic demands which scientists and practitioners have been making for years. Let us recall that the so-called foreign-exchange zloty was eliminated, and a new rate of exchange for the dollar and the ruble was introduced in relation to the zloty in circulation, that is, 68 zlotys on the ruble and 80 zlotys on the dollar. How are the new rates going? Dr Ludwik Paly, deputy director of the department of planning and effectiveness at the Ministry of Foreign Trade talks about this:

"The elimination of the foreign-exchange zloty and the establishment of rates of exchange for foreign currencies in circulation zlotys is a significant achievement. Although it does not introduce basic changes in the system of directing foreign trade, it nonetheless eliminates the distortions in the calculations used in foreign trade, greatly simplifies them, and therefore makes them more intelligible.

The basic assumption of the new system of currency exchange rates is their uniformity. The reform almost guaranteed it, but life has corrected the initial assumptions. Now, in introducing the new producer prices for raw and other materials included in the so-called official prices, world prices were adopted, calculated at a rate of 50 zlotys on the dollar, because the decisions on this subject were made at a time when the rate of about 45 zlotys on the dollar was in effect in trade payments with the capitalist countries.

Meanwhile, the great rise in production costs caused largely by the sudden decline in labor productivity, as observed particularly during the latter half of last year, along with the increasing stream of the population's nominal income, caused the ratio of the zloty to foreign currencies suddenly to become worse.



In adopting the exchange rate of 80 zlotys on the dollar for converting the prices of raw and other materials, there was the justified fear that industry (and therefore society) would not "swallow" such a great price increase. Of course, the solution adopted should be considered temporary. The purity of cost effectiveness requires the adoption of a single rate of exchange for all economic operations. The conclusion then is simple: we face a further rise in the prices of certain raw and other materials and the adoption of an identical rate of exchange, the conversion factor for export and producer prices.

The new rates of exchange have already been in effect for several months. In this connection there arises the question as to whether they were set at the proper levels. Let us remember: the economic reform assumes the setting of rates of exchange on a level a dozen and some percentage points below the limit, that is, to insure the profitability of all our exports, so that the rate of exchange serves as an incentive for producer-exporters to undertake more effective production.

With increasing frequency we are hearing the opinion that the level of the new rates of exchange was rather well selected. The overwhelming majority of Polish exports have proved profitable, so that the possible upward correction of the exchange rates to a level insuring profitability for a larger number of exporters would be minor. The new rates of exchange and the simplified principles of calculation have made it possible almost immediately to single out plants and even whole sub-branches working effectively, cheaply, and competitively in relation to foreign competitors. At the same time, for many of them their encounter with an "explosion" in their production costs vis-a-vis the requirements of the foreign market is proving disadvantageous.

At the same time, however, it should be emphasized that in assessing the propriety of the level of the exchange rates which came in after the reform, we must be very careful. The rather optimistic conclusions on this subject are advanced on the basis of an analysis of the results achieved in export during the first few months of this year. It should be remembered that the structure of exports accomplished during this period may not be entirely representative of our economy in terms of a cross-section for the whole country.

And so, for example, the process of slowing the production recession in the processing sub-branches is far more extended than, for example, in extractive industry. For the first few months of this year there was an increase in the costs of practical implementation of the regulations on the principles of clearing accounts of customers and suppliers in foreign trade. Hence this was a period of sort of getting the system going. Not all producers were "certain" of their production costs, so the inculcation of the price reform is a difficult, extended process. For this reason, it will not be possible to present a more reliable diagnosis concerning how correct the level of the rates of exchange for currencies are until the after the first half of this year.

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## SIX-MONTH INDUSTRIAL PRODUCTION PLAN DISCUSSED

Warsaw TRYBUNA LUDU in Polish 28 Jun 82 pp 1, 2

[PAP report on Council of Ministers' Economic Committee Meeting]

[Text] Improvement in mining industries. Supplies of raw and other materials will determine the growth rate of economic processes. Need for greater stimulation of export. Striving for self-sufficiency in food. Priorities for housing construction.

The Government Press Bureau reports that the general assumptions for the central socioeconomic industrial production plan for the second half of 1982 were the subject of discussion at a meeting of the Council of Ministers' Economic Committee. The deliberations were chaired by vice premier Janusz Obodowski.

The main goal of the plan is to perpetuate and expand the positive tendencies which appeared during the first six months of this year in some fields of the economy. Economic results for this period indicate that the economic situation is developing in a differentiated manner.

Improvement has occurred primarily in the mining industries. For example, coal mining in the first half of this year will be over 16 percent higher than for the comparable period last year; brown coal mining is almost 1 percent higher; electric energy, 0.4 percent higher; and copper, 4 percent higher. Some improvement towards the end of the first six months also took place in the industries that base their production on domestic raw materials.

However, the effect of disruptions, particularly those resulting from supply shortages, turned out to be greater in the processing industries than had been expected. Despite the fact, therefore, that rate of economic decline is decreasing from month to month, and in May there was an increase in production over the previous month, it is anticipated that industrial production in the first six months will be 5.4 percent below that of the same period last year. This decline is accompanied by a drastic, approximately 40 percent, reduction in deliveries of raw and other materials from capitalist countries. These indicators attest to the already begun process of replacing this import with domestic raw materials and deliveries from socialist countries. Furthermore, the process now underway of restructuring industry and changing the product type and assortment in many plants means that the relationship of presently achieved results to those of the past period can only be tentative in nature.

The negative phenomena, which must be decisively overcome during the second six months, are--as stressed at the Council of Ministers' Economic Committee meeting--lack of a clear tendency towards reduction of production costs, improvement in employment efficiency, and inadequate utilization by enterprises of all capabilities and reserves for the purpose of stimulating production. Sick leaves are growing at a disturbing rate. The activity of the economic administration in taking control over and popularizing the principles of economic reform among the workforces must also be evaluated critically.

In the second half of this year the progress and growth rate of economic processes will be decided by the availability of raw and other materials. The economy during this period will still have to be controlled by distribution of part of the materials and means, while at the same time tasks described in the operational programs are assigned. An evaluation of the past functioning of programs shows that the selection of enterprises or the specified production within the framework of these programs should be made on the basis of efficiency indicators, primarily of materials- and energy-intensiveness.

#### Application of the Principles of Providing Credits to Enterprises

One of the new elements in the mechanism of the functioning of the economy will be the practical application of the principles of providing credits to enterprises, as part of economic reform. They should force efficient management through the factors of production, including employment, and stimulate changes in product type and assortment in enterprises. A preliminary financial assessment of the enterprises shows that over 100 enterprises are threatened with temporary interruptions or permanent reductions of production. The most difficult financial situation, however, exists in the construction-assembly enterprises, for they are building too expensively--their costs are too high and their labor productivity is too low.

Because of the uncertainty as to many factors and phenomena, particularly those affected by external conditions, the assumptions of economic development in the second six months, prepared by the Council of Ministers' Planning Commission, were based on small amounts of production growth, foreign trade services, and market deliveries. The Council of Ministers' Economic Committee stated that this plan will only be a general guideline to the activities of the economic-administrative elements.

The most important goal, however, must be a more rapid growth in production, so that over the entire current year the level of production of the past year is achieved. This requires greater stimulation of the economy during the second half year. Whether or not this goal is achieved will be determined by whether the economy receives additional imports, raw and other materials and co-production, from the second payments area [capitalist countries]. That is why the task of stimulating export production was deemed to be most important in all of the measures that will be undertaken in the second six months.

#### Essential Growth of Export

The Economic Committee bound the pertinent ministers and governors, as the founding organs of state enterprises, to immediately present all proposals which would ensure

the necessary growth of export. The ministers and governors, within the framework of their authority, will also take action to provide conditions for maximally effective use of the additional foreign-exchange income derived from export. It is important also to increase deliveries of certain raw and other materials from domestic production in order to extend growth tendencies to other fields of material production and to obtain a further increase in industrial production. A flexible price and duty policy applied to raw and other materials, and a taxing and credit policy, will assist in increasing the interest of enterprises in fuller utilization of domestic reserves of raw and other materials, better utilization of production capacity and employment, and reduction of unnecessary import.

In order to increase food self-sufficiency, the Council of Ministers' Economic Committee bound the Minister of Agriculture and Food Economy to ensure the organizational conditions for efficient procurement, storage and processing of grain and other farm crops.

To achieve, during the current year, the planned amount of dwellings ready for occupancy, deliveries of indispensable finishing materials will be increased. Thus the Economic Committee bound the Minister of Foreign Trade to cite the possibilities of increasing the import of components for production of finishing materials.

There was progress in the field of financial-market balance in the first six months of this year. This was the result of a more rapid growth of expenditures for the purchase of goods and services mainly due to price increases. There is a possibility that during the second six months the value of market deliveries and services will be balanced with the population's purchasing fund, if the anticipated growth in market production occurs. A growth in the population's incomes can take place only in connection with a higher supply of goods on the market.

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## NEWLY INDUSTRIALIZED COUNTRIES' STRUCTURAL CHANGES, APPLICABILITY NOTED

Warsaw HANDEL ZAGRANICZNY in Polish No 1-2, 1982 pp 27-29

[Article by Marian Mickiewicz: "Strategy for Opening Up an Economy. Example of Newly Industrialized Countries"]

[Text] One of the contemporary phenomena in international exchange is the growing role in world export of industrial products from several developing countries which are small in size and population. These are: Hong Kong, South Korea, Taiwan and Singapore. Because of the rapid rate of industrialization, these countries are described as being newly industrialized.

It would be well to observe here that the developmental conceptions of many economically backward countries were laden with the dogma that it is not possible to cross the thresholds of backwardness through trade. This was justified simply on the basis of the theory of comparative costs, in accordance with which backward countries should specialize in the production of raw materials, and the countries already developed in the production of industrial goods. Thus it was advised that concentration be on internal factors of development. The role of foreign trade in economic development was therefore totally ignored. Growth or development problems were frequently limited to a closed economy (e.g., in the well-known Dobb-Sen model). We know, however, that the rate of reconstruction of an economic structure depends on the structure of the functioning set of production means, which determines the factual structure of the generated national income (domestic) and as a consequence, determines the factual composition of accumulation and consumption, thus also the size of absolute or relative investment. In an economy which has a minimal only share of exchange, compelled by natural conditions, these dependencies mean that structural reconstruction requires a very long time, and the tendency to perpetuate low-productivity structures appears. Under these conditions, structural transformations depend on the "pliability" of the production apparatus and on its portion producing investment goods. This "pliability", however, is problematical, since on the whole drastic attempts to convert a production apparatus result in severance of existing co-production ties and troubles in intersector and interbranch flows, which may lead to regression of the structure. We now see this phenomenon in the Polish economy.

This situation can change when we set aside the assumptions on a closed national economy, if as a criterion we accept an economic development that is thus formulated.

However, exchange with foreign countries may make the generated national income somewhat independent of the distributed income. This means that through exchange with foreign countries we can freely shape the structure and size of accumulation and the investment in it, and as a consequence, freely shape the structure of the economy. In an open economy it is also possible to change the ratio between the supply of investment goods and the supply of consumer goods in order to adapt the rate and structure of accumulation to the desired economic development. Thus, every country, sooner or later, must take the path of economic development. The turning point, which designates the moment at which this path is taken, may be the size of the given country. This may be understood in two ways. First, as the size of the territory of the given country, which relates to its natural factors (including raw materials resources) affecting the processes of economic development. Second, as the size of the domestic market, which indicates the possibility of making use of the so-called production-scale advantages. The less advantageous the arrangement of these factors is, the more rapidly the country should establish a pro-export structure of economy.

In the countries mentioned at the beginning of this article, these conditions were exceptionally unfavorable. That is why one may believe that they did not become pioneers of pro-export, and also industrial development, by chance. The implementation of this policy began in the mid-1960's by the issuance of the appropriate regulations describing the principles of the implementation of this strategy with the use of foreign capital. And so South Korea issued the so-called "South Korea's Foreign Capital Inducement Law". Taiwan and Singapore became very active in the direction of encouraging foreign capital to invest in their countries. In 1967 Singapore issued "Singapore's Economic Expansion Incentives Act", and Taiwan already in 1960 published regulations creating incentives for investment and expanded them in 1965 in the "Statute for Encouragement of Investment". The common features of these acts were the far-reaching accommodations for investments by foreign corporations. These accommodations mainly concerned exemption, for a five-year period, from income tax, and exemption from import duties of capital equipment and materials intended for pro-export investment; repatriation of profits was not subject to restrictions. Investment forms were not defined in detail, although as time went on, joint ventures became more and more important.

The opening up of the economy of the countries analyzed through conversion to pro-export development did not ensue exclusively from the natural factors peculiar to these countries. One of the fundamental factors which influenced the selection of strategy to industrialize through trade was the technical progress which occurred in the 1960's in marine transportation. There was a sharp decrease in hauling costs and freight rates dropped. This was the result of qualitative changes in the fleet which handled the bulk cargoes. The reduction in transport costs linked the sales and purchasing markets that were most distant from each other.<sup>1</sup>

An equally important factor was the implementation of the long-term goals of international corporations. They reached the peak of their expansion in the 1960's, an expansion that went on since the end of World War II, which is what caused the need for a strategy of industrialization through trade. The importance of this phenomenon can be explained by the theory of the international life of a product.

The theory of the cycle of a product's life (whose authors are the American economists M. V. Posner, R. Vernon and L. T. Wells) joins corporate policy in the sphere of international trade and in the sphere of foreign investments into a single sequence. This exchange is determined by the country which has the technology not available in other countries. The application of technological, organizational, and other innovations raises the threshold of the technological profitability of production, thus the scale of production grows higher than the needs of the domestic market. Hence the necessity for export (initially from the United States to Europe) until the moment that the production of a maturing product is undertaken and developed in Europe. This occurs when the average cost of manufacturing a product on the importer's market is lower than the exporter's marginal cost of production, increased by the cost of transportation. After this moment has passed, the development of export of that product to the developing countries then takes place. In the following phase in these particular countries, the manufacture of the already-standardized product is begun and development of export to the country which initiated the production. Although this theory was formulated primarily on the basis that the American corporation will remain (which was the main cause of criticism), nevertheless it is equally applicable to the activities of other corporations, principally from the FRG and Japan<sup>2</sup>. There is much to indicate that the phenomenon described does not arise from the existing situation but that it constitutes a developmental tendency which has appeared in the highly industrialized capitalist economy.

Thus Hong Kong, South Korea, Taiwan or Singapore are not by chance--independent of the strategy of development by trade which they undertook--in the sphere of interest of corporations, mainly American and Japanese, and with time, also the trade consortia of Western Europe. Consequently, there was a sharp inflow of capital to these countries. And, for example, direct corporate investments were as follows: In Hong Kong, 65 million dollars in 1967, and by 1972, 400 million dollars; in South Korea, correspondingly, 17.5 million dollars and 300 million dollars; in Singapore, 40 million dollars and 150 million dollars; and in Taiwan, 86 million dollars and 521 million dollars.<sup>3</sup>

In a short time these countries achieved a considerable economic and export growth rate and both the growth rate of the national incomes as well as the increases in export reached a record level in the 1960's, both in comparison with the previous decade and in relation to many other countries.

From the standpoint of economic development, however, most important of all are the structural transformations, and first of all, the transformations in the structure of employment. It is particularly important to answer the question, whether opening up to the outside caused the enclave-type of development or whether the export sector stimulated the development of the entire economy. This can best be examined using South Korea as an example. Here the development of an export sector created job positions for those directly employed in final export production. This effect in South Korea was highest in the sector of final textile (knitting) products, in the production of wigs and stainless steel flatware. At the same time, a chain effect occurred. Due to export, employment rose most rapidly in energy, in the shipbuilding industry, transportation and storage, and in domestic trade. However, the multiplication effect of the growth of employment (both in the export sector and outside of it) was limited in South Korea, mainly due to the rapid growth of living costs in relation to the growth in wages (e.g., during 1971-1972 wages rose



8.8 percent, labor productivity 15.9 percent, and living costs, 15 percent). There was also the effect of foreign-exchange income, thanks to which the expansion of industry, and not just the export industry, was possible,<sup>4</sup> which also influenced the growth of employment.

It may be estimated that the total "employment effect" of South Korea's export expansion until 1971 was as follows: each million dollars in export growth resulted in the creation of new jobs for 500 workers in the export industries, for 150 workers in the industries supplying raw materials, other materials and parts, for 500 workers in the industries producing consumer goods and services. In all, over 30 percent of the total people employed in South Korea worked in the export sector during this time. Half of the total increase in employment in the second half of the 1960's was attributed to the growth in export. There was a considerable drop in unemployment: from 8.1 percent at the beginning of the 1960's to 4.5 percent at the beginning of the 1970's.<sup>5</sup>

There was also another, very important, reason for such a large increase in employment and regroupment of the labor force. Namely, in the initial stage of industrialization the labor-intensive sectors played the leading role. As time went on, changes occurred in the structure of export and the entire economy. Although initially the production that was undertaken was based almost totally on imported input, gradually the manufacture of materials and components for the production of finished products in the developing countries became more and more important. For example, Taiwan in the initial period was the supplier of semiconductors produced from materials imported from the corporation. With time, it became an independent exporter of television sets on the world market. At the same time, the corporations started up production of finished electronic items, based on deliveries from Taiwan industries.<sup>6</sup> In the face of difficulties with export of textile products, signs of crisis on the world market, growth of manufacturing costs as a result of strikes in 1972 and a growth in wages, changes occurred in the structure of export. During 1972-1973 a new generation of export industries appeared in South Korea's export: metallurgy, petrochemistry, shipbuilding, and electrical equipment. Thus, for example, export of steel sheet grew six-fold in three years (1971-1973), and the sales of electrical machines quadrupled.<sup>7</sup> This was not random hole-patching in export. It is also a fact that these industries were not dominated by foreign capital. The dominating form of investment here were joint ventures. Due to joint ventures such industries were also developed as: crude oil refining and processing, artificial fertilizer production, the automobile industry, and shipbuilding.<sup>8</sup> Also, in 1974 the South Korean government began to attach more importance to the fair distribution of roles in joint ventures. Action was taken to take over the shares in the present branches and constitute them in the form of joint ventures. And so, for example, during 1972-1973, branches of such giants as Sony, National Panasonic, Pechiny Saint-Gobain, Kawasaki, Kubota, Toyota and U.S. Steel Corporation, became joint ventures.

Besides the reasons mentioned above, the character of the political systems functioning in the newly industrialized countries was favorable to the structural transformations which took place, for these systems permitted the implementation of a developmental strategy at a very low level of consumption. Nevertheless, observation of the course of the processes of industrialization in these countries allows us to make certain comparisons to the present economic situation in Poland and the structural transformations that we face. In connection with this, it is worth calling attention



to two groups of problems which, in the light of certain reports and documents, appear to be insufficiently linked (particularly in the "Government Report on the State of the Economy" and the "Government Program for Overcoming the Crisis and Stabilizing the Country's Economy"). On the one hand we know that deliberations on whether pro-export development is profitable and by how much are senseless. In our payments situation, there is no alternative to such development. On the other hand it is obvious that deep changes await us (actually, this process has already begun) in the structure of employment, and even the problem of unemployment is being discussed. Both problems, thus far, have not been unequivocally connected on a large scale. As we see by the example of certain newly industrialized countries, these problems are closely interconnected. The problem of unemployment in the case of these countries became less important as time went on. Will we have unemployment in connection with this? This would be an economic paradox, flying in the face of pro-export transformations in our economy which are to be made. Of course, for now, in Poland, we are dealing with increases in employment in certain sectors of the economy, both absolute and relative increases (i.e., in relation to current needs). In a short time this problem may be solved through absorption of surpluses (absolute or relative) of the labor force by the export sector. The "Government Program for Overcoming the Crisis and Stabilizing the Country's Economy" sees these two problems as only two of many. And thus it is envisaged that regroupment of labor resources should take place into as many as 13 fields of economic activity, including "...into plants working for export, in which growth of labor-intensiveness will be covered by growth of results obtained in export".<sup>10</sup> As we see, the thread joining these two so closely interconnected problems is very thin. In addition, an increase in labor-intensiveness as the Program proposes is a reversal of the order of things. As we know, labor-intensiveness or capital-intensiveness are the consequence of a choice of a specific technique of manufacturing, and therefore are determined at the time the investment decision is made. These, then, are objective amounts. An increase in employment in such a situation may lead to a decline in labor productivity, and a deterioration in export profitability. Such regroupment of employment may be justified only when utilization of production assets is inadequate. But this means that we are concerned with obtaining the labor-intensiveness (capital-intensiveness) initially assumed, and not with its growth. It seems that these thoughts and observation should be considered in preparing a program for the pro-export development of our economy.

#### FOOTNOTES

1. S. Ladyka and T. Lodykowski, "International Trade and Sea Navigation in the World Economy", Polish Scientific Publishers, p 224 and following.
2. See also E. Cyrson, "Multinational Corporations. Correctness of Foreign Expansion", Polish Scientific Publishers, Warsaw, 1981.
3. A. Hone, "Multinational Corporations and Multinational Buying Groups" in "World Development", February 1974 (only direct corporate investments--actual inflow of capital was much greater).
4. S. Watanabe, "Export and Employment: The Case of the Republic of Korea", in INTERNATIONAL LABOUR REVIEW, No 6, 1972; "The Impact of Multinational Enterprises on Employment and Training, ILO, 1976., Geneva. Also B. F. Wideman:

"Korean Chauvinism", in FAR EASTERN ECONOMIC REVIEW, 5 March 1973.

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6. M. Sharpston, "International Subcontracting", in OXFORD ECONOMIC PAPERS, No 1, 1975.
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8. "National Approaches to the Acquisition of Technology", in "Development and Transfer of Technology Series", UNIDO, No 1, 1977.
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10. "Government Program for Overcoming the Crisis and Stabilizing the Country's Economy", p 45.

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